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SUBJECT: FACTORING THE ECONOMY INTO IRAN'S PRESIDENTIAL ELECTIONS

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REASON: 1.4 (b), (d)

¶1. (C) Summary: Conversations with Iranian businessmen and financial consultants held in the past week reveal an overwhelming preference among our contacts for Mohsen Rezai's economic proposals, but most intend to vote for Mir Hossein Mousavi for political and social reasons. Our contacts admit that these non-economic issues may be more important to them than the poorer or rural voters and note that the majority of Iranians are less interested in the battle over economic statistics and macro performance of the country and more focused on their day-to-day situations. In general there are very low expectations for any meaningful economic reform, but our interlocutors hope that the election's focus on the economy will cultivate a better environment for pursuing solutions after the election. End Summary.

¶2. (C) In perhaps a fitting end to the candidates' debates, the final match-up between former IRGC head Mohsen Rezai and President Ahmadinejad focused almost exclusively on the economy, which arguably is one of the key factors in this election. Iranians we have spoken to all agree that the economy is crucial. They note that Ahmadinejad's promise to put oil money on people's tables really resonated with Iranians in 2005, and any similar populist messages this time around will be attractive. For all the time candidates spent arguing over statistics and macroeconomic policy, however, our contacts did not think that rural and less educated Iranians cared very much about data on growth, investment, and production. Rather, Iranians' concerns over their day-to-day finances would determine their vote.

¶3. (C) A businessman in the oil and gas industry told us that Ahmadinejad's support among the rural population -- built on those promises of distribution of oil revenues -- may be weakening because of unmet expectations. He cited incomplete projects in some provinces, broken promises of Ahmadinejad's provincial visits, and the poor results of the government's housing loan program in some villages. These particular loans were intended to allow rural Iranians to construct new homes, contingent on their use of steel, concrete, and brick as earthquake protection measures. Some Iranians, however, were only able to complete parts of their home because of the rising cost of cement, steel, and brick, and the simple insufficiency of the USD 5,000 loans. He wonders if recipients question the benefit of these low-cost loans if they were not enough to do

what was promised.

14. (C) Our contacts, ranging from financial consultants to providers of industrial equipment, have echoed the key critiques thrown at Ahmadinejad by his opponents. When asked if these reproaches are accurate, exaggerated, or mask a deeper grievance, they responded that the problems are real, but they also note that Ahmadinejad in some cases has only aggravated much deeper structural problems for which previous governments must also be held responsible. Despite our contacts' consensus on Ahmadinejad's failures and the claims of his opponents, they hold decidedly different opinions about the candidates' economic plans.

Candidates' Economic Advisors Important Symbols for Electorate

15. (C) Most Iranians we talked to did not see much difference between the three challengers. Our contacts maintained that there is little difference between the economic platforms of Mehdi Karroubi and Mir-Hossein Mousavi. One of the key questions plaguing Mousavi, however, has been how sincerely he has embraced economic reforms. Despite Mousavi's claims of supporting the private sector and foreign investment, one Iranian businessman labeled him a "pure socialist." He was very leftist as prime minister, and Iranians are unsure whether to believe his excuse that his nationalization of industries was required by the war situation at the time. He has, however, assembled a team of reform-minded economic advisors --specifically well-known economist Farshad Momeni and the former secretary of the Tehran bourse Hossein Abdeh-Tabrizi -- that suggests his views have evolved since the 1980s.

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16. (C) Karroubi has made various pledges that lead many commentators to consider him as much an economic populist as Ahmadinejad, including one to give USD 70 per month to every Iranian. Nevertheless, most contacts described Karroubi as more free-market than Mousavi. More than one contact dismissed Karroubi's populist campaign tactics as only an election maneuver to capture voters who may be swayed by Ahmadinejad's stipends. Like Mousavi, he has a very strong economic team, including former economic minister Davoud Danesh-Jafari and former Tehran mayor, and "excellent manager", and Karroubi's choice for first vice president Gholam-Hossein Karbaschi.

17. (C) Among our contacts, there is unanimous agreement that Rezai's plan for the economy is the most fundamentally sound. Iranians we talk to here say that expanding the private sector and investing in capital projects is exactly what Iran needs. They emphasize that Rezai's focus on the economy comes from his powerful position as Secretary of the Expediency Council, a platform from which he has used in the past to speak out against Ahmadinejad and his short-term, populist policy and in favor of long-term, investment-centered policy. An Iranian financial consultant said that Rezai is the only candidate who talked about freedom of the economy and deregulation and came across as very professional and polished in his debates.

Candidates' Plans Unlikely to Take Shape After Election

18. (C) Although the economy has dominated much of the candidates' debates, has stirred much discussion in the press and will heavily influence the outcome the election, our contacts in Dubai doubt meaningful economic reforms will be possible. Two businessmen did not think candidates' economic promises resonated much with the private sector because Iran's entrenched economic elite-Rafsanjani and the Revolutionary Guard Corps for example-will see to it that their own interests are not threatened by thwarting any initiative to undercut them.

19. (C) Likewise, our contacts said some of the promises candidates are making are impractical or not fully thought through. Karroubi's plan's pledge to give every Iranian USD 70 will be nearly impossible to implement given the decline in many of Iran's economic indicators-notably GDP growth, unemployment, oil prices, and a looming budget deficit. Mousavi's supporters here note that it is laudable for him to talk about boosting the private sector, but he has not mentioned liberalizing the economy, without which the private sector will not flourish. For Rezai's part, although he gets the most points from Iranians concerned with the economy here, they do not see him as a viable candidate because of the lack of trust Iranians have in him. One contact said Rezai "is only talking about the economy because he does not believe in political freedoms." Iran's private sector, 80 economists, and the administration of the Imam Reza Shrine in Mashhad have published letters and editorials suggesting they do not believe any of the candidates have presented economic solutions.

Comment

110. (C) For many Iranians, this election has come down to a question of which candidate will do most to make life better, and the candidates, including Ahmadinejad, have been promoting the economic merits of their platforms heavily, as was seen during the one-on-one debates. For most voters, the economy and the possible betterment of their own financial situation will be the basis of their decision for whom to vote. But the economy should not be seen as the single defining issue of this election. Our contacts, most of whom are highly educated, financially better off, and business savvy, believe Rezai is the

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most qualified candidate to undertake meaningful economic reform, but many of them will vote for Mousavi because they consider political and personal freedoms as important to Iran's future as reforming its economy.
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